FOREST – WAVERLY FIRE DEPARTMENT CHEBOYGAN COUNTY, MICHIGAN

Financial Statements For the Year Ended March 31, 2004

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

Issued under P.A. 2		nded.	o itopo						
Local Government	Type Township	Village	Other	Local Government Name Forest - Waverly	/ Fire Departm	ent	i i	ounty heboyg	ıan
Audit Date 3/31/04		Opinion [9/30/0		Date A 10/4	countant Report Sub	mitted to State:			
Financial Statem				local unit of governmental Accounting Soft of Government in Management			ਮਿ≅∂ਯੋ ਹੀੀਰੀ ment of Tre	rin Regó. asuli√EAs	D omnat
vve affirm that:				dits of Local Units of		- 1	$-0CT_{1}$	5 200)4
				to practice in Michig		LOC,	AL AUDIT &		
	the following	ı. "Yes" re		ave been disclosed in		tements, inclu	ding the no	FINANCE tes, or in	DIV. the report of
You must check t	he applicable	box for e	each item be	elow.					
Yes N	o 1. Certa	in compo	onent units/fu	unds/agencies of the	local unit are exc	cluded from th	e financial	statemer	nts.
Yes 🔽 No		e are acc of 1980).	cumulated de	eficits in one or mor	e of this unit's u	nreserved fun	d balances	/retained	earnings (P.
Yes 🔽 No	3. There	e are inst ded).	tances of no	on-compliance with	the Uniform Acc	ounting and E	Budgeting A	∖ct (P.A.	2 of 1968, a
Yes V No	Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or it requirements, or an order issued under the Emergency Municipal Loan Act.								
Yes ✓ No	Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943 as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).								
Yes 🔽 No									
Yes 🔽 No	The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earne Yes No 7. pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfundin credits are more than the normal cost requirement, no contributions are due (paid during the year).								
Yes 🔽 No									
Yes 🔽 No	9. The lo	cal unit h	as not adopt	ted an investment po	licy as required b	y P.A. 196 of	1997 (MCL	129.95).	
Ve have enclose	d the follow	ing:				Enclosed	To B		Not Required
The letter of comm	nents and re	commend	lations.			~			104404
Reports on individ	ual federal fi	nancial as	ssistance pro	ograms (program au	dits).				~
Single Audit Reports (ASLGU).				V					
Certified Public Accour			P.C.						
treet Address 580 South Nic o					City Mackinaw Ci	fv	State MI	ZIP 49701	
ccountent Signature	1	Ma	11	at AA	1 3 4 5 1 1 1	-y	Date	43/0	<u> </u>

FOREST – WAVERLY FIRE DEPARTMENT TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

	<u>PAGE</u>
FINANCIAL STATEMENTS	
Combined Balance Sheet - General Fund and Account Groups	1
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance	2
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	3
Notes to Financial Statements	4 ₋ 9



Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 30, 2004

Members of the Board Forest – Waverly Fire Department Tower, Michigan

I have audited the accompanying general purpose financial statements of the *Forest – Waverly Fire Department*, *Cheboygan County Michigan*, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the *Forest – Waverly Fire Department's* management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the *Forest – Waverly Fire Department*, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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FOREST - WAVERLY FIRE DEPARTMENT COMBINED BALANCE SHEET - GENERAL FUND AND ACCOUNT GROUPS MARCH 31, 2004

	_	ACCOUNT	GROUPS
ASSETS	GENERAL FUND	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT
Cash and cash equivalents Fixed assets Amount to be provided for retirement of	\$13,108	\$ - 311,856	\$ -
general long - term debt	-	-	47,207
TOTAL ASSETS	\$13,108	\$311,856	\$47,207
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accrued expenses Notes payable	\$558	\$ - 	\$ - 47,207
TOTAL LIABILITIES	558	-	47,207
FUND EQUITY			
Investment in fixed assets Fund balance:	-	311,856	-
Unreserved, undesignated	12,550	-	
TOTAL FUND EQUITY	12,550	311,856	-
TOTAL LIABILITIES AND FUND EQUITY	\$13,108	\$311,856	\$47,207
-		4511,650	J4 /,4U/

See Accompanying Notes.

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_	(MEMC	DRANDUM				
	O	ONLY)				
_		\$13,108				
		311,856				
_		47,207				
		\$372,171				
_						
		9550				
-		\$558 47,207				
		47,765				
-						
-		311,856				
		12,550				
		324,406				
-		\$372,171				

TOTAL

FOREST - WAVERLY FIRE DEPARTMENT GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED MARCH 31, 2004

	REVENUES	
_	Contributions from local units	0.53.585
	Interest	\$53,575
	Charges for services	125
	Contributions and donations from private sources	4,700
	Other - Refunds and reimbursements	1,025
		201
_	TOTAL REVENUES	59,626
		37,020
	EXPENDITURES	
	Current:	
	Public Safety:	
	Salaries and wages	2,120
	Fringe benefits	162
	Supplies - office	591
	Supplies - fire department	4,613
	Contracted services	5,725
	Communications	800
	Transportation	835
	Repairs and maintenance	2,204
_	Utilities	2,843
	Insurance	10,107
	Other	55
_	Capital outlay	
	Debt service:	14,622
	principal	20 (71
	interest	20,671
		3,313
	TOTAL EXPENDITURES	69.661
		68,661
	EXPENDITURES OVER REVENUES	(9,035)
		(2,033)
	OTHER FINANCING SOURCES	
	Loan proceeds	15,000
		13,000
	TOTAL OTHER FINANCING SOURCES	15,000
		13,000
	REVENUES AND OTHER SOURCES OVER	
	EXPENDITURES AND OTHER SOURCES	5,965
_		3,903
	FUND BALANCE, BEGINNING OF YEAR	6 596
		6,586
-	FUND BALANCE, END OF YEAR	Q12 EE1
		\$12,551
	See Accompanying Notes.	

FOREST - WAVERLY FIRE DEPARTMENT GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE
REVENUES			(UNFAVORABLE)
Contributions from local units	\$53,575	\$53,575	•
Interest	100	125	\$
Charges for services	2,000	4,700	2:
Contributions and donations from private sources	1,000	1,025	2,70
Other - Refunds and reimbursements	200	200	2.
TOTAL REVENUES	56,875	59,625	2,750
EXPENDITURES			-,
Current:			
Public safety	47,891	44.4==	
Debt service:	47,071	44,677	3,214
principal	20,671	20 (71	
interest	3,313	20,671 3,313	
TOTAL EXPENDITURES	71,875	68,661	3,214
XPENDITURES OVER (UNDER) REVENUES	(15,000)	(9,036)	5,964
THER FINANCING SOURCES			
Loan proceeds	15,000	15,000	
TOTAL OTHER FINANCING SOURCES	15,000	15,000	_
EVENUES AND OTHER SOURCES OVER			
EXPENDITURES AND OTHER SOURCES	-	5,964	5,964
JND BALANCE, BEGINNING OF YEAR	6,586	6,586	, -
JND BALANCE, END OF YEAR	\$6,586	\$12,550	\$5,964

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Forest – Waverly Fire Department (the Fire Department) is a joint venture organized to provide fire service, pursuant to Michigan P.A. 7 and 8 of 1967 (Interlocal Agreements), serving the Townships of Forest, Waverly and Walker (under contract) in Cheboygan County, Michigan. The Fire Department operates under an appointed board comprised of a Chairman, Vice – Chairman, Secretary and two board members.

The accounting policies of the Fire Department conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Fire Department and any component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Based on the foregoing criteria, the Fire Department has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

FUND ACCOUNTING

The accounts of the Fire Department are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by type in the financial statements. The following fund type and account groups are utilized by the Fire Department:

GOVERNMENTAL FUNDS:

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED):

General Fund

The General Fund is the general operating fund of the Fire Department. It is used to account for all financial resources except those required to be accounted for in another fund.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group presents the fixed assets of the Fire Department utilized in its general operations (non-proprietary fixed assets). Capital assets are expensed as acquired; consequently, no depreciation is recorded.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary or trust funds.

TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Governmental Fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) as net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

BUDGETS AND BUDGETARY BASIS OF ACCOUNTING

Comparisons to budget are presented for General Fund as required by generally accepted accounting principles. The Fire Department follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Secretary submits to the Fire Department Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Fire Department Board.

The Fire Department's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded, is not employed by the Fire Department because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

FIXED ASSETS AND LONG-TERM OBLIGATIONS

Fixed assets used in the general operation of the Fire Department are recorded as expenditures when purchased and are accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. General fixed assets are acquired by purchase and donation and are recorded at cost, or estimated cost if the actual cost is not known or available.

Long-term obligations that arise from transactions in governmental fund types are reported in the general long-term debt account group.

NOTE 2: CASH AND CASH EQUIVALENTS

The caption on the combined balance sheet relating to cash and cash equivalents of \$13,108 represent deposits in one financial institution located in Cheboygan County. The total deposits do not exceed \$100,000 and therefore, are covered by the Federal Deposit Insurance Corporation (F.D.I.C.). All accounts are in the name of the Fire Department. They are recorded in the Fire Department records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Michigan Compiled Laws, Section 129.91 authorizes units of local governments to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTES TO FINANCIAL STATEMENTS

NOTE 3: PROPERTY AND EQUIPMENT - GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance April 1, 2003	Additions (Deletions)	Balance March 31, 2004
Building Equipment	\$33,338 263,896	\$ - 14,622	\$33,338 278,518
	\$297,234	\$14,622	\$311,856

NOTE 4: LONG-TERM DEBT

A summary of long-term obligations at March 31, 2004, and transactions related thereto for the year then ended is as follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Capital lease – Emergency One, Inc. (See note 6)	\$45,988	\$ -	\$14,369	\$31,619
Capital lease-Allied Capital, Inc. (See note 6)	6,890	-	3,302	3,588
Forest Township-related party (See Note 5)		15,000	3,000	12,000
=	\$52,878	\$15,000	\$20,671	\$47,207

NOTE 5: RELATED PARTY

Forest Township provided funds to the Fire Department in the form of a loan for the refurbishing of fire equipment in the amount of \$15,000, payable in quarterly installments of \$1,000, plus interest at 2%, through February, 2007.

NOTE 6: LEASES

The Fire Department has a vehicle lease with Emergency One, Inc. which meets the criteria for capitalization under generally accepted accounting principles. The present value of the minimum lease payments of \$137,935 was capitalized at the inception of the lease using a 6.39% interest rate. The lease is payable in quarterly installments of \$4,250 through April, 2006.

The vehicle leased, in the amount of \$137,935, is included in the general fixed assets at March 31, 2002.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LEASES (CONTINUED)

The Fire Department also has a equipment lease with Allied Capital, Inc. which meets the criteria for capitalization under generally accepted accounting principles. The present value of the minimum lease payments of \$16,313 was capitalized at the inception of the lease using a 7.9% interest rate. The lease is payable in quarterly installments of \$944 through January, 2005.

The equipment leased, in the amount of \$16,313, is included in the general fixed assets at March 31, 2004.

The following is a schedule by years of future minimum lease payments required under the capital leases at March 31, 2004:

Year Ended March 31,	<u>Amount</u>
2005	20,777
2006	17,000
Total minimum payments due	\$37,777
Less amounts representing interest	
Present value of net minimum lease payments	<u>\$ 35,207</u>

NOTE 7: COMBINING FUND FINANCIAL STATEMENTS

Only one individual fund exists within the governmental fund and account groups. Therefore, combining fund financial statements are not presented.

NOTE 8: CONTINGENCY

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Fire Department. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

September 30, 2004

Members of the Board Forest - Waverly Fire Department Tower, Michigan

In planning and performing my audit of the general purpose financial statements of the *Forest - Waverly Fire Department, Cheboygan County, Michigan*, for the year ended March 31, 2004, I considered the Fire Department's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated September 30, 2004 on the financial statements of the *Forest – Waverly Fire Department*.

Thank you for the opportunity to serve the *Forest – Waverly Fire Department*. I appreciate the assistance I received from the Secretary during my audit. Best wishes in the next year.

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Sincerely,

Richard E. Mahlmeister, C.P.A.

Forest – Waverly Fire Department Comments & Suggestions September 30, 2004 Page 2 (two)

SEGREGATION OF DUTIES

Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect the *Forest - Waverly Fire Department's* ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of the Township. This condition is generally inherent in organizations the size of the *Forest - Waverly Fire Department*, where corrective action is not practical, and is not considered to be a material weakness.

UPCOMING FINANCIAL REPORTING CHANGES

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments, the most significant change in the history of government financial reporting. These new requirements for the annual financial reports of state and local governments become effective for the Forest - Waverly Fire Department for the year ended March 31, 2005 (the first audit year will be March 31, 2006) and may take time to implement.

As the effective date will be next audit year (March 31, 2006), I would be pleased to explain these changes and what they mean for the Forest - Waverly Fire Department as well as assist in implementing this new standard.